

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

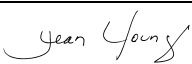
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



CAPITAL REGION AIRPORT AUTHORITY

**Financial Report
with Supplemental Information
June 30, 2006**

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moran

Capital Region Airport Authority

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Independent Auditor's Report

To the Board of Directors
Capital Region Airport Authority

We have audited the basic financial statements of Capital Region Airport Authority (the "Authority") as of June 30, 2006 and 2005 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) (identified in the table of contents) is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The accompanying other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Capital Region Airport Authority

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated September 8, 2006 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Plante & Moreau, PLLC

September 8, 2006

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited)

The following management's discussion and analysis (MD&A) of the Capital Region Airport Authority's activities is intended to provide an overview of the Authority's financial condition. The information contained in this MD&A should be considered in conjunction with the statement of net assets, the statement of revenue, expenses, and changes in net assets, and other statistical information contained in this report.

Financial Operations Highlights

- Operating revenues decreased slightly to \$7,351,482 in 2006 from \$7,385,756 in 2005. Fewer airline and concession fees were paid to the airport due to airport traffic decreases caused by the airline bankruptcies. Operating revenues increased by 10 percent to \$7,385,756 in 2005 from \$6,715,238 in 2004, due to airport traffic increases, reflected most prominently in parking lot fees and concessions.
- Mason Jewett Field's net revenue increased 15.1 percent to \$135,920 in 2006 from \$118,118 in 2005 due to increased fuel profits and building rentals. Mason Jewett Field's net revenue increased 31 percent to \$118,118 in 2005 from \$90,193 in 2004, primarily from increased fuel sales.
- Salaries and benefits decreased 5.5 percent to \$3,990,523 in 2006 from \$4,223,208 in 2005. Implementation of a new health insurance program combined with scheduling changes in public safety accounted for this cost containment. Salaries and benefits increased 5.3 percent to \$4,223,208 in 2005 from \$4,009,146 in 2004 due to increased health insurance and MERS contribution requirements.
- Operating expenses, exclusive of depreciation, remained constant at \$8,187,594 in 2006 from \$8,173,215 in 2005. Aggressive budget management in all departments resulted in the Authority being able to adjust expenses to meet the reduction in revenues described above. Operating expenses, exclusive of depreciation, increased 13 percent to \$8,173,215 in 2005 from \$7,242,456 in 2004, primarily due to increased marketing expenses for the airport and air service development program.

Financial Operations Overview

Capital Region Airport Authority's mission, to "provide excellent airport facilities and services that exceed our customers' expectations," has driven a strategic plan which clearly enumerates directives designed to promote the recovery of the Authority's passenger base through increased quality and quantity of air service provided at the Capital Region Airport Authority. Thus, management's core objective is to effectively use present revenues generated to implement these growth-oriented directives and to solidify the airport's infrastructure to handle the resulting increase in air service activity. The key performance indicators for the Authority, therefore, relate to changes in net assets, as well as nonfinancial measurements including (but not limited to) passenger count, aircraft landings, and parking lot activity.

Capital Regional Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

The bankruptcies of Northwest and Delta Airlines in fiscal year 2006 have intensified the challenge for the Authority to meet these objectives. While these bankruptcies have produced inevitable losses to activity levels, effective cost containment measures coupled with active communications with all airlines have mitigated the financial impact of this reduced airline activity.

Financial Position Summary

A condensed summary of the Authority's net assets for the years ended June 30 is presented below:

	2006	2005	2004
Assets			
Current	\$ 5,718,773	\$ 3,169,781	\$ 2,815,449
Noncurrent	59,143,284	57,809,926	56,279,810
Total assets	<u>\$ 64,862,057</u>	<u>\$ 60,979,707</u>	<u>\$ 59,095,259</u>
Liabilities			
Current	\$ 815,279	\$ 611,028	\$ 1,029,295
Revenue bonds	12,503,798	13,216,718	13,954,638
Other	349,644	303,555	326,456
Total liabilities	<u>\$ 13,668,721</u>	<u>\$ 14,131,301</u>	<u>\$ 15,310,389</u>
Net Assets			
Unrestricted	\$ 4,979,009	\$ 2,709,331	\$ 1,942,806
Restricted	4,470,623	5,610,403	5,397,316
Invested in capital	41,743,704	38,528,672	36,444,748
Total net assets	<u>\$ 51,193,336</u>	<u>\$ 46,848,406</u>	<u>\$ 43,784,870</u>

Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Summary of Changes in Net Assets

A condensed summary of the Authority's changes in net assets for the years ended June 30 is presented below:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenue	\$ 7,351,482	\$ 7,385,756	\$ 6,715,238
Operating expense	<u>11,631,791</u>	<u>11,310,902</u>	<u>10,365,391</u>
Operating loss	(4,280,309)	(3,925,146)	(3,650,153)
Nonoperating revenue (expenses):			
Tax revenue	3,176,612	3,141,313	3,128,393
Investment income	261,476	110,137	44,372
Interest expense	(726,919)	(750,289)	(770,679)
Miscellaneous - Net	29,551	14,294	4,690
Passenger facility charges	<u>1,212,476</u>	<u>1,433,700</u>	<u>1,274,202</u>
Net nonoperating revenue	<u>3,953,196</u>	<u>3,949,155</u>	<u>3,680,978</u>
Net income (loss) before capital contributions	(327,113)	24,009	30,825
Capital contributions	<u>4,672,043</u>	<u>3,039,527</u>	<u>3,820,350</u>
Net income	<u>\$ 4,344,930</u>	<u>\$ 3,063,536</u>	<u>\$ 3,851,175</u>

Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Capital Asset and Debt Administration

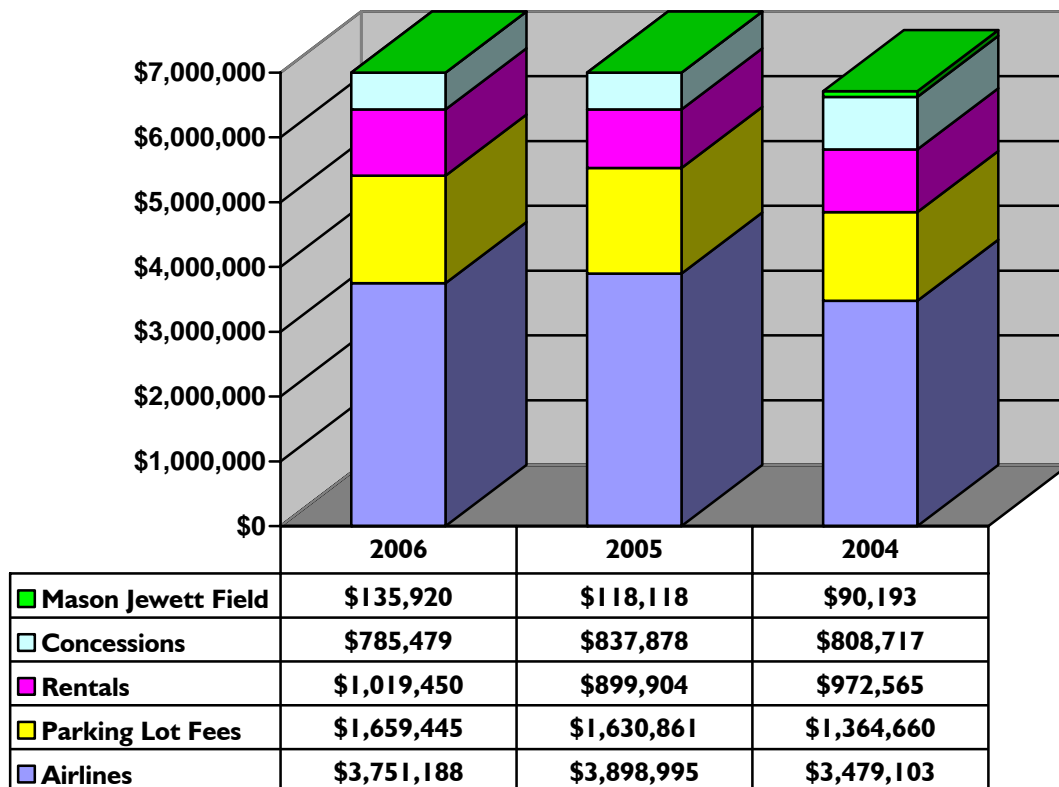
Capital assets consisting of land, airport improvements in progress, buildings, taxiways, runways, machinery, and equipment increased by \$5,946,309 in 2006 primarily due to the runway extension project. Capital assets increased by \$4,483,692 during 2005 primarily due to the security upgrade project and security enhancement project.

At June 30, 2006 and 2005, the Authority had outstanding bonds totaling \$12,503,798 and \$13,216,718, respectively.

Revenues

The following chart depicts the Authority's operating revenue sources, and their relationship to the total operating revenues for the years ended June 30 is presented below:

Operating Revenue



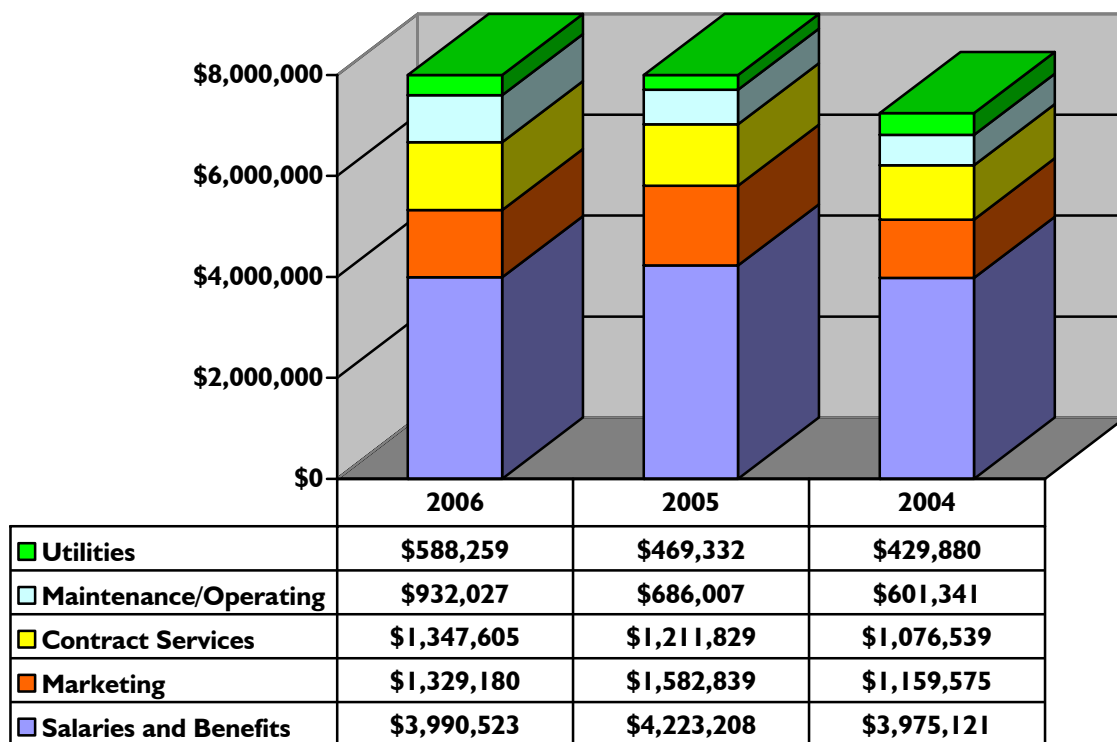
Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Expenses

The following chart depicts the Authority's major operating expense categories, exclusive of depreciation, and their relation to the total operating expenses for the years ended June 30 is presented below:

Operating Expenses



Capital Region Airport Authority

Management's Discussion and Analysis (Unaudited) (Continued)

Airline Rates and Charges

The Authority sets rates and charges annually by adoption of a resolution based on a compensatory (cost of services) methodology. This methodology utilizes the Authority's statement of operations and debt service requirements to allocate these costs to the various air service providers. These rates include the terminal rental rates, landing fees, and airline apron fees. These rates are as follows:

	2006	2005	2004
Terminal rental (exclusive space)	\$ 38.08	\$ 37.85	\$ 36.75
Terminal rental (common space)	26.65	26.50	25.72
Landing fees (signatory rate per 1,000 pounds)	2.47	2.24	2.06
Airline apron fee (per 1,000 pounds)	0.52	0.28	0.26

Note: Figures for 2006 are an average rate as there was a mid-year adjustment to these rates.

Financial Statements

Capital Region Airport Authority's financial statements are prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board. The Authority accounts for its activity in a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. Capital assets are depreciated (except land and construction in progress) over their useful lives. Construction in progress projects are closed and transferred to their respective capital accounts upon completion.

Contacting the Authority's Financial Management

This financial report is intended to provide taxpayers, customers, and bondholders with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the Capital Region Airport Authority, 4100 Capital City Boulevard, Lansing, MI 48906.

Capital Region Airport Authority

Statement of Net Assets

	June 30	
	2006	2005
Assets		
Current Assets		
Cash and investments (Note 2)	\$ 4,615,497	\$ 1,726,763
Trade accounts receivable - Less allowance for doubtful accounts of \$538,029 and \$60,350 at June 30, 2006 and 2005, respectively	899,311	1,220,645
Passenger facility charges receivable	118,210	179,479
Prepaid expenses and other assets	85,755	42,894
Total current assets	5,718,773	3,169,781
Restricted Assets (Notes 2 and 3)	4,470,623	5,610,403
Other Assets	425,159	454,133
Capital Assets (Note 4)	54,247,502	51,745,390
Total assets	<u><u>\$ 64,862,057</u></u>	<u><u>\$ 60,979,707</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 658,562	\$ 445,223
Compensated absences (Note 7)	156,717	165,805
Total current liabilities	815,279	611,028
Noncurrent Liabilities		
Revenue bonds payable - Excluding current installments (Note 5)	12,503,798	13,216,718
Compensated absences (Note 7)	349,644	303,555
Total liabilities	13,668,721	14,131,301
Net Assets		
Invested in capital assets - Net of related debt	41,743,704	38,528,672
Restricted (Note 3)	4,470,623	5,610,403
Unrestricted	4,979,009	2,709,331
Total net assets	51,193,336	46,848,406
Total liabilities and net assets	<u><u>\$ 64,862,057</u></u>	<u><u>\$ 60,979,707</u></u>

Capital Region Airport Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2006	2005
Operating Revenue		
Airfield	\$ 1,879,131	\$ 1,908,788
Terminal	2,898,192	2,966,038
Leased sites	2,374,339	2,328,908
Airline security screening	63,900	63,904
Mason Jewett Field - Net of fuel sales	135,920	118,118
Total operating revenue	7,351,482	7,385,756
Operating Expenses		
Airfield	1,018,325	759,132
Terminal	1,510,594	1,289,078
Fire and security	2,050,236	1,489,949
Administrative	2,179,851	3,082,474
Depreciation	3,444,197	3,137,687
Mason Jewett Field	145,937	81,474
Airport development	1,282,651	1,471,108
Total operating expenses	11,631,791	11,310,902
Operating Loss	(4,280,309)	(3,925,146)
Nonoperating Revenue (Expense)		
Tax revenue	3,176,612	3,141,313
Investment income	261,476	110,137
Interest and finance charges	(726,919)	(750,289)
Miscellaneous - Net	29,551	14,294
Passenger facility charge revenue	1,212,476	1,433,700
Total nonoperating revenue	3,953,196	3,949,155
Net Income (Loss) - Before capital contributions	(327,113)	24,009
Capital Contributions	4,672,043	3,039,527
Net Income	4,344,930	3,063,536
Net Assets - Beginning of year	46,848,406	43,784,870
Net Assets - End of year	<u>\$ 51,193,336</u>	<u>\$ 46,848,406</u>

Capital Region Airport Authority

Statement of Cash Flows

	Year Ended June 30	
	2006	2005
Cash Flows from Operating Activities		
Payments to employees	\$ (4,123,785)	\$ (4,223,208)
Payments to suppliers	(3,813,469)	(4,571,446)
Charges and rentals	<u>7,629,955</u>	<u>7,215,199</u>
Net cash used in operating activities	(307,299)	(1,579,455)
Cash Flows from Noncapital Financing Activities -		
Taxes collected	3,176,612	3,141,313
Cash Flows from Capital and Related Financing Activities		
Principal payments on revenue bonds payable	(750,000)	(775,000)
Interest paid	(658,865)	(684,235)
Capital expenditures - Net	(1,278,263)	(1,444,163)
Miscellaneous receipts	29,551	14,294
Passenger facility charges collected	<u>1,273,745</u>	<u>1,436,675</u>
Net cash used in capital and related financing activities	(1,383,832)	(1,452,429)
Cash Flows from Investing Activities		
Proceeds from sale of investments	1,001,997	-
Purchase of investments	(95,470)	(59,888)
Interest earned on investments	<u>261,476</u>	<u>110,137</u>
Net cash provided by investing activities	<u>1,168,003</u>	<u>50,249</u>
Net Increase in Cash and Cash Equivalents	2,653,484	159,678
Cash and Cash Equivalents - Beginning of year	<u>4,231,974</u>	<u>4,072,296</u>
Cash and Cash Equivalents - End of year	<u>\$ 6,885,458</u>	<u>\$ 4,231,974</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and investments	\$ 4,615,497	\$ 1,726,763
Restricted cash and investments	4,470,623	5,610,403
Less amounts classified as investments	<u>(2,200,662)</u>	<u>(3,105,192)</u>
Total cash and cash equivalents	<u>\$ 6,885,458</u>	<u>\$ 4,231,974</u>

Supplemental Cash Flow Information - Capital contributions amounting to \$4,672,043 and \$3,039,527 were received from both the federal government and the State of Michigan during 2006 and 2005, respectively, and were recorded as additions to property, buildings, equipment, and Authority revenue.

Capital Region Airport Authority

Statement of Cash Flows (Continued)

A reconciliation of operating loss to net cash from operating activities is as follows:

	Year Ended June 30	
	2006	2005
Operating loss	\$ (4,280,309)	\$ (3,925,146)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	3,444,197	3,137,687
Bad debt expense	479,179	-
(Increase) decrease in assets:		
Accounts receivable	(157,845)	(345,388)
Other current assets	(42,861)	(5,440)
Increase (decrease) in liabilities:		
Accounts payable	213,339	(429,283)
Compensated absences payable	37,001	(11,885)
Net cash provided by (used in) operating activities	<u>\$ (307,299)</u>	<u>\$ (1,579,455)</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 1 - Description of Organization and Summary of Significant Accounting Policies

Reporting Entity - Capital Region Airport Authority (the "Authority") was established on October 1, 1970 as a result of Public Act No. 73 of the Public Acts of 1970. The law took immediate effect upon the governor's signature on July 16, 1970. The Authority is charged with the responsibility of all public airport facilities within the jurisdictional confines of the Authority. As required by accounting principles generally accepted in the United States of America, these financial statements present Capital Region Airport Authority. No other component units have been combined into the Authority's basic financial statements.

Basis of Presentation - The financial statements include the accounts of the Authority and have been prepared on the accrual basis. The significant accounting policies of the Authority, as summarized below, conform with proprietary fund accounting and reflect practices appropriate to the regulatory environment in which it operates.

Basis of Accounting - In accordance with Governmental Accounting Standards Board (GASB) No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements. Additionally, the Authority follows all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB pronouncements. After November 30, 1989, the Authority only applies applicable GASB pronouncements.

These full accrual financial statements are reported using the economic resources measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Cash and Cash Equivalents - The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments - Investments are stated at fair value, based on quoted market prices, and consist principally of money market funds, mutual funds, and governmental securities.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

Trade Accounts Receivable - Accounts receivable represents amounts due from airlines and other entities. An allowance for doubtful accounts is recognized based on a specific assessment of receivable balances that remain unpaid. The allowance is determined based on management's estimate of amounts recoverable from each entity. Amounts deemed to be uncollectible are written off in the period that the determination is made. At June 30, 2006 and 2005, the allowance for doubtful accounts was \$538,029 and \$60,350, respectively.

Other Assets - Other assets primarily include the bond issue costs on the revenue bond issues, which are being amortized using the interest method over the term of the respective issues.

Capital Assets - Capital assets are carried at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. Costs of maintenance and repairs are charged to expense when incurred. Capital assets are defined by the Authority with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Costs incurred by the Authority for capital improvement projects are accumulated as airport improvements in progress until the project becomes operational, at which time such costs are transferred to the appropriate capital asset account.

Revenue/Expenses - Operating revenues and expenses generally result from providing services. All other revenues and expenses are reported as nonoperating.

Property Taxes - Ingham and Eaton Counties collect taxes on behalf of the Authority. The 2005 taxable valuation of properties totaled \$7,200 million (a portion of which is abated and a portion of which is captured by other jurisdictions), on which ad valorem taxes levied consisted of .4695 mills for operating purposes. This resulted in \$3.2 million of tax revenue for the Authority.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2006 and 2005, the Authority had \$6,889,902 and \$5,396,174, respectively, of bank deposits (checking and savings accounts), of which \$5,459,697 and \$4,973,984, respectively, were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At June 30, 2006 and 2005, the average maturities of investments are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
June 30, 2006:		
U.S. government or agency bond or note	\$ 348,506	1.5 years
June 30, 2005		
U.S. government or agency bond or note	\$ 350,503	2.5 years

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
June 30, 2006:			
Mutual funds	\$1,852,156	AAA	Standard & Poor's
June 30, 2005:			
Mutual funds	\$2,754,689	AAA	Moody's

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 3 - Restricted Assets

The restricted funds at June 30, 2006 and 2005 are required under the Authority's 2002 revenue bond resolutions and the provisions of the Federal Passenger Facility Charge Program. These funds, which consist of cash and investments, are segregated into the following funds:

	Required Reserves	
	2006	2005
Passenger facility charge deposits	\$ 1,770,516	\$ 2,782,403
Bond interest and redemption fund	-	-
Bond reserve account	1,249,107	1,381,000
Renewal and replacement account	300,000	300,000
Operations and maintenance reserve account	1,151,000	1,147,000
Total restricted assets	<u>\$ 4,470,623</u>	<u>\$ 5,610,403</u>

Requirements of the following reserve account must be maintained if not expended on approved projects:

- **Passenger Facility Charge Deposits** - These deposits are funds collected from passengers in conjunction with the Federal Passenger Charge Program. The funds may only be used for projects approved by the Federal Aviation Administration in the Authority's record of decision.

Requirements of the following reserve accounts must be maintained at all times:

- **Bond Interest and Redemption Fund** - This fund is restricted for payment of the current portion of bond principal and interest. Payments due July 1 were paid prior to June 30.
- **Bond Reserve Account** - This account maintains a reserve for the lesser of the following: 10 percent of the stated principal amount of the Series 2002 Bonds, the maximum annual principal and interest requirements on the Series 2002 Bonds, or 125 percent of the average annual principal and interest requirements on the Series 2002 Bonds.
- **Renewal and Replacement Account** - This account was created to establish and maintain a reserve of \$300,000 to be used to pay unanticipated emergency repairs at the Authority's facilities.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 3 - Restricted Assets (Continued)

Requirements of the following reserve account must be fulfilled prior to the issuance of additional debt of a prior or equal standing with respect to rights in liquidation of existing debt.

Operations and Maintenance Reserve Account - This account maintains a reserve for operations and maintenance expenses equal to two months of the cost of operating and maintaining Authority facilities during the immediately preceding fiscal year of the Authority.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	July 1, 2005	Additions (Transfers Out)	June 30, 2006	Depreciable Life - Years
Capital Assets Not Being Depreciated				
Land:				
Capital City Airport	\$ 8,876,261	\$ 390,397	\$ 9,266,658	
Mason Jewett Field	860,639	-	860,639	
Total land	9,736,900	390,397	10,127,297	-
Airport improvements in progress	14,615,208	(3,287,850)	11,327,358	-
Total capital assets not being depreciated	24,352,108	(2,897,453)	21,454,655	
Other Capital Assets				
Land improvements - Capital City Airport	8,873,452	275,856	9,149,308	10-20
Buildings and improvements:				
Capital City Airport	32,583,538	1,059,335	33,642,873	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	32,788,341	1,059,335	33,847,676	10-20
Runways and taxiways:				
Capital City Airport	20,367,351	3,215,459	23,582,810	
Mason Jewett Field	2,326,702	159,253	2,485,955	
Total runways and taxiways	22,694,053	3,374,712	26,068,765	20
Machinery and equipment:				
Capital City Airport	8,087,930	4,133,859	12,221,789	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	8,125,116	4,133,859	12,258,975	3-10
Master plan:				
Capital City Airport	571,232	-	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	814,232	-	814,232	20
Subtotal other capital assets	73,295,194	8,843,762	82,138,956	
Less Accumulated Depreciation	<u>45,901,912</u>	<u>3,444,197</u>	<u>49,346,109</u>	
Other capital assets - Net	<u>27,393,282</u>	<u>5,399,565</u>	<u>32,792,847</u>	
Net total capital assets	<u>\$ 51,745,390</u>	<u>\$ 2,502,112</u>	<u>\$ 54,247,502</u>	

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 4 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2005 was as follows:

	July 1, 2004	Additions	June 30, 2005	Depreciable Life - Years
Capital Assets Not Being Depreciated				
Land:				
Capital City Airport	\$ 8,876,261	\$ -	\$ 8,876,261	
Mason Jewett Field	860,639	-	860,639	
Total land	9,736,900	-	9,736,900	-
Airport improvements in progress	11,182,703	3,432,505	14,615,208	-
Total capital assets not being depreciated	20,919,603	3,432,505	24,352,108	
Other Capital Assets				
Land improvements - Capital City Airport	8,873,452	-	8,873,452	10-20
Buildings and improvements:				
Capital City Airport	32,583,538	-	32,583,538	
Mason Jewett Field	204,803	-	204,803	
Total buildings and improvements	32,788,341	-	32,788,341	10-20
Runways and taxiways:				
Capital City Airport	20,351,870	15,481	20,367,351	
Mason Jewett Field	2,326,702	-	2,326,702	
Total runways and taxiways	22,678,572	15,481	22,694,053	20
Machinery and equipment:				
Capital City Airport	7,090,565	997,365	8,087,930	
Mason Jewett Field	37,186	-	37,186	
Total machinery and equipment	7,127,751	997,365	8,125,116	3-10
Master plan:				
Capital City Airport	532,891	38,341	571,232	
Mason Jewett Field	243,000	-	243,000	
Total master plan	775,891	38,341	814,232	20
Subtotal other capital assets	72,244,007	1,051,187	73,295,194	
Less Accumulated Depreciation	42,764,224	3,137,688	45,901,912	
Other capital assets - Net	29,479,783	(2,086,501)	27,393,282	
Net total capital assets	\$ 50,399,386	\$ 1,346,004	\$ 51,745,390	

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 4 - Capital Assets (Continued)

Airport improvements in progress consist of the following:

	2006	2005
Federal projects:		
Project 3202 - Lansing Security Upgrades	\$ -	\$ 7,146,616
Project 3403 - Lansing Security Upgrades	4,647,126	4,115,229
Project 3604 - Runway Extension E.A./P.E.	520,068	507,692
Project 3704 - West Access Road	1,039,304	473,329
Project 3805 - Airport Land/Church Property	-	281,453
- Wetland Mitigation	4,054,405	121,107
- Benefit Cost Analysis	33,320	2,040
Project 2001.0623 - Hold Room/Board Room	-	831,997
Project B.26.0106.0804 - Mason Entrance Rd	-	157,513
Project B.26.0106.0904 - Mason Jewett Field	25,000	11,000
Mason Jewett Taxiway Relocation	74,380	-
Dewitt Road Land Purchase	112,802	-
Authority projects:		
Business Park	226,250	226,250
Sanitary Sewer System	-	42,010
Sanitary Sewer System Extension	-	229,146
Master Plan/Part 150	574,934	469,826
Loading Bridge Design (Phase I)	19,769	-
Total	<u>\$ 11,327,358</u>	<u>\$ 14,615,208</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 5 - Revenue Bonds Payable

Revenue bonds payable consist of the following at June 30:

	Beginning Balance	Current Year Reductions	Ending Balance
Series 2002 - A	\$ 130,000	\$ (130,000)	\$ -
Series 2002 - B	<u>13,680,000</u>	<u>(620,000)</u>	<u>13,060,000</u>
Total revenue bonds payable	13,810,000	(750,000)	13,060,000
Less bond discount	(132,429)	8,277	(124,152)
Deferred amount on refunding of bonds	<u>(460,853)</u>	<u>28,803</u>	<u>(432,050)</u>
Revenue bonds payable	<u>\$13,216,718</u>	<u>\$ (712,920)</u>	<u>\$12,503,798</u>

The Authority issued revenue bonds in the amount of \$725,000 dated March 15, 2002 (Series A) for the purpose of refunding Series 1985 Bonds, which were for constructing a hangar, office, and training facility and making certain related site improvements. The bonds bear interest at an average rate of 3 percent. The bonds are secured by a lien upon the net revenue of the Authority; future improvements, enlargements, extensions or repairs; and payments made to the Authority by any other governmental entity.

During the year, the Series 2002-A Revenue Bonds were paid in full.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 5 - Revenue Bonds Payable (Continued)

The Authority issued revenue bonds in the amount of \$15,330,000 dated March 15, 2002 (Series B) for the purpose of refunding Series 1992 Bonds which were for the purpose of constructing new hold rooms, ticket counters, and offices, other renovations and improvements to the terminal building, and improvements to the parking lot and terminal circulation roadways. The bonds bear interest at an average rate of 4.9 percent. The bonds are secured by a first lien upon the net revenue, as defined, of the Authority.

The annual requirements to amortize the Series 2002-B Revenue Bonds and related interest at June 30, 2006 are as follows:

Years Ending June 30	Principal Due July 1	Interest Due July 1 and January 1	Total
2007	\$ -	\$ 315,998	\$ 315,998
2008	610,000	620,100	1,230,100
2009	635,000	595,346	1,230,346
2010	670,000	568,250	1,238,250
2011	695,000	538,896	1,233,896
2012	730,000	507,713	1,237,713
2013	765,000	472,779	1,237,779
2014	805,000	435,672	1,240,672
2015	845,000	395,650	1,240,650
2016	885,000	352,823	1,237,823
2017	935,000	307,323	1,242,323
2018	985,000	259,323	1,244,323
2019	1,035,000	208,305	1,243,305
2020	1,095,000	153,169	1,248,169
2021	1,155,000	94,107	1,249,107
2022	1,215,000	31,894	1,246,894
Total	<u>\$ 13,060,000</u>	<u>\$ 5,857,348</u>	<u>\$ 18,917,348</u>

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 6 - Line of Credit

The Authority has a line of credit with a bank with maximum borrowings of \$2,000,000. Outstanding amounts are due at maturity on August 10, 2007 and require monthly payments at an interest rate of 0.75 percent below prime per annum. At June 30, 2006, the Authority had not borrowed on the line of credit.

Note 7 - Compensated Absences

Compensated absences activity for the years ended June 30, 2006 and 2005 was as follows:

	Balance			Balance	Amounts Due
2006	July 1, 2005	Additions	Reductions	June 30, 2006	Within One Year
Compensated absences	\$ 469,360	\$ 37,001	\$ -	\$ 506,361	\$ 156,717

	Balance			Balance	Amounts Due
2005	July 1, 2004	Additions	Reductions	June 30, 2005	Within One Year
Compensated absences	\$ 481,245	\$ -	\$ 11,885	\$ 469,360	\$ 165,805

Note 8 - Leases

The Authority leases land, terminal space, and offices to various entities under the terms of noncancelable operating leases. Substantially all leases include a provision for future rental adjustments based upon changes in the Consumer Price Index. Rental receipts include minimum rentals plus contingent rentals based on sales volume.

Rental income from the operating leases consisted of the following:

	2006	2005
Minimum rental	\$ 2,751,329	\$ 2,850,793
Contingent rentals	2,442,425	2,400,402
Total	\$ 5,193,754	\$ 5,251,195

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 8 - Leases (Continued)

Future minimum lease rentals to be received under noncancelable operating leases, with initial or remaining lease terms in excess of one year, as of June 30, 2006 are as follows:

2007	\$ 839,718
2008	800,685
2009	571,647
2010	578,683
2011	321,396
Later years through 2051	<u>7,418,682</u>
Total	<u>\$ 10,530,811</u>

Note 9 - Defined Benefit Pension Plan

Plan Description - The Authority participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The system provides retirement, disability, and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Authority's competitive bargaining units and requires a contribution from the employees of 0.36 percent, 0 percent, and 6.78 percent from AFSCME Capital City Airport Chapter of Local 1390, Public Safety Department Unit, and Public Safety Department Sergeants Unit, respectively.

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 9 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the years ended June 30, 2006 and 2005, the Authority's annual pension cost was equal to the Authority's required and actual contribution. The annual required contribution for 2006 and 2005 was determined as part of an actuarial valuation at December 31, 2003 and December 31, 2002, respectively, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent, and (c) additional projected salary increases ranging from 0 percent to 8.40 percent per year, depending on age, attributable to seniority and merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

Years Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2006	\$ 462,496	100	\$ -
2005	491,334	100	-
2004	410,891	100	-

Valuation Date	Actuarial Asset Values	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
December 31, 2005	\$ 7,594,015	\$ 11,958,406	\$ 4,364,391	64	\$ 2,512,190	174
December 31, 2004	7,203,545	11,611,168	4,407,623	62	2,681,975	164
December 31, 2003	6,782,953	10,477,093	3,694,140	65	2,718,626	136

Capital Region Airport Authority

Notes to Financial Statements June 30, 2006 and 2005

Note 10 - Commitments

The Authority has provided a letter of credit with a bank related to a \$1,000,000 revenue guarantee for the benefit of an airline. The letter of credit is unsecured and will expire on December 15, 2006.

Note 11 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 12 - Postemployment Benefits

The Authority provides health care benefits to all full-time employees upon retirement. Currently, 21 employees are eligible. The Authority includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$200,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Other Supplemental Information

Capital Region Airport Authority

Schedule of Operating Revenue and Expenses Budget and Actual

	Year Ended June 30					
	2006			2005		
	Actual	Budget	Favorable (Unfavorable)	Actual	Budget	Favorable (Unfavorable)
Operating Revenue						
Airfield	\$ 1,879,131	\$ 1,920,860	\$ (41,729)	\$ 1,908,788	\$ 1,606,128	\$ 302,660
Terminal	2,898,192	2,745,963	152,229	2,966,038	2,830,653	135,385
Leased sites	2,374,339	2,389,688	(15,349)	2,328,908	2,031,957	296,951
Airline security screening	63,900	56,700	7,200	63,904	64,400	(496)
Mason Jewett Field - Net of fuel sales	135,920	116,163	19,757	118,118	95,595	22,523
Total operating revenue	7,351,482	7,229,374	122,108	7,385,756	6,628,733	757,023
Operating Expenses - Exclusive of depreciation						
Airfield	1,018,325	781,712	(236,613)	759,132	672,077	(87,055)
Terminal	1,510,594	1,288,162	(222,432)	1,289,078	1,322,950	33,872
Fire and security	2,050,236	1,580,164	(470,072)	1,489,949	1,556,779	66,830
Administrative	2,179,851	2,749,064	569,213	3,082,474	2,639,055	(443,419)
Mason Jewett Field	145,937	100,280	(45,657)	81,474	85,720	4,246
Airport development	1,282,651	2,000,000	717,349	1,471,108	2,000,000	528,892
Total operating expenses	8,187,594	8,499,382	311,788	8,173,215	8,276,581	103,366
Operating Loss - Exclusive of depreciation	\$ (836,112)	\$ (1,270,008)	\$ 433,896	\$ (787,459)	\$ (1,647,848)	\$ 860,389

September 8, 2006

To the Board of Directors
Capital Region Airport Authority

In connection with our audit of the basic financial statements of Capital Region Airport Authority (the "Authority") for the year ended June 30, 2006, we offer the following for your review and consideration:

Retiree Health Care Benefits

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any underfunding must be reported as a liability on the government-wide statement of net assets. This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million, respectively. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months' lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

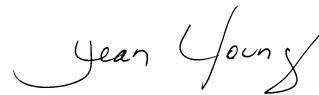
September 8, 2006

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. Thus, funding the contribution will actually reduce your long-run cost.

We are grateful for the opportunity to be of service to the Authority. The cooperation extended to us by the Authority's staff throughout the audit was greatly appreciated. Should you wish to discuss any of the items in this report, we would be happy to do so.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in cursive script that reads "Jean Young".

Jean M. Young, CPA
Partner